Comment Sheet
CVP Cost Allocation Meeting of January 18, 2013

Name: Jerry Toenyes

Organization and Address: Northern California Power Agency, 651 Commerce Drive, Roseville, CA 95678

Phone: (916) 781-4297
Email: Jerry.Toenyes@ncpa.com

Comments:

NCPA provides the following comments on the material presented at the January 18, 2013 meeting:

Power Benefits:

NCPA appreciated the open dialogue at the beginning of the meeting regarding power benefits as it initiated a good discussion on the benefit value currently provided by CVP generation. Our basic issue is that the California Independent System Operator (CAISO) market has a price for all power products throughout California and when CVP power is delivered into the CAISO the exact values (power benefits) for CVP generation are established. The CAISO pays the customers for the imported CVP power at a specific "Locational Marginal Price" ("LMP") at the point of transfer, currently at Captain Jack near the Oregon border. If Reclamation did not have legal requirements for the delivery of CVP generation, it would sell the power to the CAISO market and receive the same value (benefits) as CVP customers are experiencing. The CAISO market valuation is the method that needs to be used to determine power benefits in the cost allocation process. Power customers want CVP costs allocated on the benefits that are actually provided, not based on theoretical calculations developed by hundreds of inputs into a model.

There are several publications available that make future CAISO market projections. At the meeting Kent Palmerton listed three entities that produce these projections: Ventyx, Black and Veatch, and Cambridge Energy Research Associates. Reclamation should subscribe to one of these publications and use those valuations as the basis for making future power benefit projections. The power customers would appreciate Reclamation not spending our money on further PLEXOS modeling when existing publications already make projections for future power values.

Western has calculated the value of CVP generation based on market prices for the last several years. The evaluation reflects actual CVP operations and values the generation on an on-peak and off-peak basis. The historical data in these studies can be used as a base for making future on-peak and off peak monthly projections of

CVP generation. The future on-peak and off-peak generation pattern will need to be adjusted, however, to reflect operational changes caused by Delta Flow Criteria, river temperature and water quality regulations, and other projected environmental events that will impact future CVP power operations.

Hydrology:

Reclamation needs to address how it plans to estimate future water deliveries and dam water releases at the next meeting. The projection of water deliveries and subsequent releases from dams for power generation is a critical component of both water and power benefits for the cost allocation.

Final Cost Allocation Option:

As the expense of this cost allocation mounts and we begin to uncover the thorny issues associated with trying to develop an accurate cost allocation, we should reconsider using the last major allocation update made in 1970 as the final cost allocation for the CVP. A minor cost allocation update was made in 1975 to reflect changes mainly in the power benefit evaluation, but those changes reflected a temporary uptick in power values which have since proved to be incorrect. The 1975 power benefits projections started at almost $50 per megawatt hour and then escalated over the 100 year period. Almost 40 years later the average market value is less than $35 per megawatt hour, 30 percent lower than the value used for the first year of the benefit evaluation for the 1975 cost allocation. Obviously the 1975 minor update for power benefits, based on the energy shortage in 1973 and 1974, was incorrect and the values used in the 1970 major cost allocation have proven to be far more accurate. As we have seen thus far from the cost allocation process the valuation for water, power, and flood control, on a proportional basis, appears to be close to the allocation percentages developed in the last major 1970 allocation. Completing an expensive cost allocation study only to come up with similar allocation percentages used in the 1970 cost allocation does not make economic sense.